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INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 5840
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RUEHNE/AMEMBASSY NEW DELHI 2600
RUEHUL/AMEMBASSY SEOUL 5336
RUEHKO/AMEMBASSY TOKYO 2962
RUEHWL/AMEMBASSY WELLINGTON 3430
RUEHJA/AMCONSUL SURABAYA 2363
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEAWJA/DEPT OF JUSTICE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 JAKARTA 000069

SIPDIS

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SUBJECT: WHO'S IN CHARGE OF INDONESIA'S ECONOMIC POLICY?

Classified By: CDA John Heffern, for reasons 1.4 (b+d)

¶1. (C) Summary: Indonesian economic policy lacks clear leadership and institutional coordination. While Indonesia's macroeconomic response to the financial crisis has been generally strong, high profile Ministerial disputes highlight the tensions between economic technocrats, who believe in rules-based systems, and politically powerful business interests looking to make "deals." These tensions are also played out on trade and investment issues. Meanwhile, the global economic crisis and Indonesia's upcoming elections have prompted the introduction of a series of economic policies that reflect a troubling protectionist sentiment among some Indonesian elites. If President Yudhoyono receives a second term, his capacity to resolve these tensions will be critical to the success of his economic development and reform efforts. End Summary

Team of Rivals

¶2. (C) Rivalries between competing Ministers on economic policy are common in any democracy, but are abetted in Indonesia by institutional weaknesses and President Yudhoyono's leadership style. While the Coordinating Ministry of the Economy is ostensibly responsible for overall economic policy coordination, in practice the Ministry is not empowered to compel cooperation from the other line Ministries. The Coordinating Minister does not have statutory preeminence over other Ministers to prevent them from issuing decrees and regulations on areas of economic policy. Some previous Coordinating Ministers compensated for the lack of formal authority by leveraging prior relationships with other Ministers. Coordinating Minister Sri Mulyani, while a forceful personality, is a technocrat without those personal ties. She has also not been armed with the necessary political authority by President Yudhoyono (SBY) to reign in competing Ministries. As a result, Mulyani has few

alternatives other than to pursue consensus over confrontation in coordinating policy and resolving disagreements among Ministers, sometimes at the expense of the integrity of economic policy.

Rock and a Hard Place

13. (C) President SBY's unwillingness to empower Mulyani with a firmer hand over economic policy coordination reflects his own political reality. As a minority party President, SBY has diminished political power over Ministers who represent political parties with larger) and broader- constituencies. For example, SBY's Vice-President Jusuf Kalla, who represents Indonesia's largest political party (Golkar), often sides with domestic business interests against the economic technocrats. SBY also depends on the political fundraising prowess of wealthy business elites whom he has rewarded with high governmental positions, such as Coordinating Minister for Social Welfare Aburizal Bakrie and Chairman of the Investment Coordinating Board (BKPM) Muhammad Lutfi. Indonesia's upcoming Presidential election highlights these vulnerabilities and hampers SBY's ability to maintain discipline and resolve economic disputes within his Cabinet. SBY instead relies on traditional consensus building among his Ministers, and avoids intervening in conflicts until they escalate and spill-over into front page news headlines.

Two Camps: Technocrats vs. Plutocrats

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14. (C) Yudhoyono's economic Cabinet Ministers generally fall into one of two competing camps: the technocrats and the plutocrats. The technocrats, led by Mulyani, include Minister of Trade Mari Pangestu and Central Bank Governor Boediono. (Presidential advisor and G-20 sherpa Chatib Basri, although not occupying an official government position, also falls into the technocrat camp.) The plutocrats are a more diverse group comprising of Minister Bakrie, Vice-president Jusuf Kalla, Minister of Industry Fahmi Idris and senior members of KADIN, Indonesia's Business Chamber. Investment Coordinating Board Chairman Muhammad Lutfi, while usually associated with the plutocrats, moves between both camps as serves his self-interest. For example, although he is a fierce policy rival of Pangestu, Lutfi sometimes aligns himself with her on issues affecting prominent multinationals operating in Indonesia. However he is also a former entrepreneur who is close with Kalla and Bakrie. (Lutfi assisted Bakrie in negotiating a joint venture with a local private equity fund that now owns twenty percent of Bakrie's signature company, Bumi Resources.) Lutfi characterizes himself to U.S. business leaders as a reformer pushing for change against a reluctant bureaucracy.

You Can't Always Get What You Want

15. (C) High profile Ministerial disputes in the current crisis have thrown a light on how these dynamics allow rivalries to adversely affect economic governance. An instructive example is the clash between Minister Bakrie, formerly the richest man in Indonesia, and Minister Mulyani. Their dispute centered on the public trading of Bumi Resources on the Indonesian Stock Exchange (IDX). In October 2008, with prices plummeting, trading of Bumi was frozen for an extended period by the GOI to allow Bakrie to find a buyer for his troubled company. After three weeks, Mulyani called for the resumption of trading. Reportedly, over Mulyani's objections, Bakrie convinced his ally, Vice-president Jusuf Kalla, to prevent IDX from resuming trading Bumi shares. Mulyani warned that Kalla's interference was a threat to the integrity of Indonesia's capital markets. She presented her concerns to SBY, who initially declined to intervene.

Mulyani responded to SBY's inaction with an ultimatum: instruct the IDX to trade Bumi shares or she would resign. President Yudhoyono relented and instructed the IDX to begin trading Bumi stock. Bakrie subsequently declared he would not seek a position in SBY's next Cabinet, which raises the question whether Bakrie will serve as a financier in support of Yudhoyono's re-election campaign.

But You Get What You Need

16. (C) An earlier dispute between Bakrie and Mulyani was driven by Bakrie's financial interests in telecommunications.

In March 2008, the Ministry of Communications issued a decree limiting the ownership of cell towers to domestic companies and requiring divestment of foreign-owned cell towers within two years. The decree directly contradicted Indonesia's 2007 Investment Law which 1) allowed foreign investment in cell towers; 2) specified that new investment restrictions could only be enacted by Presidential Decree; and 3) included a specific provision protecting pre-existing foreign investors from retroactive application of new restrictions. The decree also potentially violated Indonesia's WTO and ASEAN commitments. Minister of Trade Pangestu encouraged Minister Mulyani to send a letter to Minister of Communications Mohammad Nuh suggesting that the

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proposal be submitted to the Coordinating Ministry for consideration as a revision to the Investment Law. The letter was sent but never made public and the decree has not been rescinded. In the meantime, the resulting legal uncertainty benefited Bakrie by deterring foreign investors from submitting competing bids (against his) on a lucrative cell tower contract.

All Down The Line

17. (C) Global economic turmoil, protectionist sentiments and Indonesia's upcoming elections have provoked additional Ministerial economic policy disputes. Indonesia's new import licensing requirements for sugar were quietly introduced at the behest of Vice-President Kalla, over the objections of the Minister of Trade and Chairman Lutfi. (Food and beverage contacts tell us Kalla's interest in sugar is driven by election politics. They allege domestic sugar producers and refineries have promised contributions to the Golkar party's upcoming election campaign.) Meanwhile, Minister of Health Supari, widely known for her use of anti-foreign sentiments to build her political base, issued a decree requiring foreign pharmaceutical companies to build manufacturing facilities in Indonesia over the objections (again) of the Ministry of Trade and BKPM. Meanwhile the Minister of Tourism issued a protectionist decree on film production in December 2008 that contradicts Indonesia's Film Law as well as the Investment Law. And the Minister of Industry has responded to the global economic crisis by pressuring the Ministry of Trade to implement more import regulations in possible violation of Indonesia's ASEAN and WTO commitments.

Moral Hazard of Saving Face

18. (C) The cultural preference in Indonesia of consensus over confrontation creates another issue: the moral hazard of "saving face". As a cultural practice, Indonesians are sensitive to sparing colleagues embarrassment and avoiding confrontation no matter how egregious their colleagues behavior. In principle, this practice would be complemented by reluctance among Ministers to create confrontational situations. In practice however, some of SBY's Ministers appear to calculate this behavior into their decision making. As the examples above illustrate, Ministers in Indonesia can issue decrees that contradict existing economic policy with the expectation that cultural and political dynamics will

compel Ministerial colleagues to avoid a direct confrontation by negotiating a "face saving" compromise. As the telecommunications example demonstrates, Ministers can walk away with at least some of their (often protectionist) objectives served, while insulated from the risk of embarrassment or negative consequences that might otherwise have restrained their actions.

A (Growing?) Divide

19. (C) The rivalries and disputes among Ministers on economic policy represent fundamental policy divides: plutocrat vs. technocrat, protectionist v. free trade; and political deal-making v. rules-based regulatory systems. These tensions, if left unaddressed, will continue to shape Indonesia's economic regime- and not for the better. It is striking to note that all the economic technocrats in SBY's Cabinet are U.S.-educated, in contrast to their rivals, who are more often the product of local universities. The technocrats have scored some victories during the first term

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of Yudhoyono's administration, and SBY deserves credit for keeping them on. However, continuing global financial turmoil and impending elections mean more challenges await. And Minister Mulyani cannot threaten to resign every week.
HEFFERN